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C O N F I D E N T I A L SECTION 01 OF 03 KYIV 000107

SIPDIS

DEPT FOR EUR, EUR/UMB

E.O. 12958: DECL: 01/21/2020

TAGS: [EFIN](#) [ETRD](#) [PGOV](#) [PINR](#) [PREL](#) [UP](#) [XH](#) [EREL](#)

SUBJECT: POSSIBLE NEW UKRAINIAN PM TIHIPKO CASTS SELF AS

REFORMER

Classified By: Ambassador John F. Tefft for Reasons 1.4 (b) and (d)

¶1. (C) Summary. Serhiy Tihipko may accept the position of Prime Minister of Ukraine, but only if he is guaranteed support from the new President and the Rada (parliament) to tackle economic and administrative reforms, and only after the presidential race concludes. Having just finished third in Ukraine's January 17 first round presidential election, Tihipko told the Ambassador that he would support neither Yulia Tymoshenko nor Viktor Yanukovich prior to the February 7 second round vote. Tihipko said he had been underestimated and unsupported by elites in Ukraine and abroad, but his lack of political debts now provided him leverage and independence, especially in ongoing negotiations with Ukraine's major faction leaders and in his upcoming trip to Moscow. End summary.

PRESIDENTIAL ELECTION SECOND ROUND

¶2. (C) Millionaire businessman and former Deputy Prime Minister and National Bank Governor Serhiy Tihipko, who placed third in Ukraine's January 17 first round presidential election, told the Ambassador on January 21 that he would "stay away from the fight" between Yanukovich and Tymoshenko before the second round. Tihipko's primary rationale was that he did not want to take responsibility for what either candidate would say on the campaign trail. He noted that both were "bad alternatives" for Ukraine, since neither alone would make the "democratic changes and economic modernizations" the country needed. Tihipko commented that each had served as Prime Minister twice and had already received plentiful chances. Voters were now faced with a choice of the "lesser evil."

¶3. (C) Tihipko said there was a danger the second round election results could be delayed due to litigation, and he feared the courts would be unable to resolve the situation. Tihipko said any extended delay or cancellation of the election would be "bad for Ukraine but good for me." He reasoned that if second round election results were cancelled because of Party of Regions-BYuT fighting in the courts, Ukrainians would vote in droves against both candidates in a new election. Tihipko confidently projected that, in such an instance, he would become Ukraine's next President, since the country's population had learned that a vote cast for Tihipko would not be wasted.

¶4. (C) Tihipko told the Ambassador that he had talked to incumbent President Yushchenko earlier in the day about the possibility of a declaration of emergency. Tihipko said he would back Yushchenko if extreme post-election stasis prevented an announcement of the second round results.

Noting that both he and the President "knew what to do and where to support each other," Tihipko described Yushchenko as a "democrat" who had retained enough support from the population to make such a bold decision.

PRIME MINISTER JOB ON THE TABLE

15. (C) Although he would not endorse Tymoshenko or Yanukovych or accept either's offer to become Prime Minister prior to the second round, Tihipko said he would continue to "conduct all political negotiations." After the presidential election, Tihipko said it was "possible" he could agree to become Prime Minister, but only under very clear conditions. He would need an 18-month "guarantee of support from the President through the Rada" to allow him to undertake "difficult steps."

16. (C) Tihipko reasoned that if Yanukovych won the presidency, the Party of Regions would be able to construct a coalition and remove Tymoshenko as Prime Minister. Yanukovych would not need to call early elections to accomplish this, since the Lytvyn and Our Ukraine blocs would migrate to the new power center. Tihipko noted that talks in the Rada were already underway, and that forming a new coalition without pre-term parliamentary elections would be "very easy to do," implying that this could result in his premiership. Tihipko said a decision to hold pre-term Rada elections would also work in his favor, since he expected to gain about 15% of the seats in parliament in a snap vote.

LOOKING AHEAD, LOOKING BACK

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17. (C) As an alternative to the post of Prime Minister, Tihipko said he had entertained the idea of running for Kyiv mayor in the May 2010 municipal elections, while working at the same time to build his political party. This would enable him to run again for President in five years with a strong party infrastructure in place throughout the country.

18. (C) Tihipko thought Ukraine's oligarchs would now fully support him, since they trusted he could prevent a calamitous two or three-fold fall in assets prices that would result from ongoing political instability. Above all else, Tihipko believed Ukraine's elites respected him because he owed favors to no one. Gesturing with his thumb and forefinger together, Tihipko emphasized he had taken "zero, not one kopek" from others and had funded his campaign entirely with his own money. It was the best possible position for a politician emerging onto the national stage.

19. (C) Tihipko said that he had approached the campaign like a business proposition. He had laid out a strategy to target voters, cultivated a message, and delivered a product. He told the Ambassador he had sought to attract young, well educated, urban entrepreneurs and government workers by staying away from populism. This strategy had been developed in consultation with French advisors in charge of political party building, along with American experts from a U.S.-based "democratic institute." Tihipko acknowledged that American-style campaigns were the "future" of politics in Ukraine, since Americans tended to take a more business-like approach, though he admitted that the lack of a party infrastructure and support network in the regions had hurt his presidential campaign.

TOP REFORM PRIORITIES

110. (C) Tihipko said he desired to be featured in Ukrainian history as a reformer and that "he would not lose this chance." His top priorities were the economic policy changes the country needed to exit the crisis. Tihipko pledged to

balance the budget and get right with the IMF. Both steps would be taken immediately, Tihipko said, sending prompt signals to investors and foreign partners. Next, Tihipko would focus on deregulation and tax reform to bring small and medium firms "out of the shadows," where he said 40% of business activity in Ukraine now resided. He would roll back intrusive state inspections and streamline taxation to combat corruption and bolster budget revenues.

¶11. (C) Tihipko also cited the need for energy, agricultural, and transportation reforms. He told the Ambassador he would immediately raise gas prices to levels sufficient for cost recovery. It would not be necessary for the next Prime Minister to "sell" such increases to the public; the government "just needs to do it," while targeting support for the most vulnerable populations. If people were spoken to in an honest manner, Tihipko felt, there would be no political backlash.

¶12. (C) Tihipko addressed the necessity to reform Naftohaz, the state energy monopoly. He proposed first splitting the company into two separate units, coinciding with its gas transit and production functions. Then, Tihipko said, Naftohaz should be turned into a joint stock company, with Ukraine controlling 50%, and the remaining shares divided evenly between the European Union (24.99%) and Russia (24.99%). This would cause both East and West to take a stake in the company's future, as well as diminish the demand for alternative transit routes via the Nord and South Stream pipelines. Tihipko proposed to use revenues from Naftohaz's stock sale to modernize Ukraine's gas transit infrastructure, as well as to pay off Naftohaz's mounting debts.

¶13. (C) Tihipko agreed with the Ambassador that Ukraine could learn from steps Georgian President Saakashvili had taken to lower corruption and reform Georgia's economy. Upon hearing that Saakashvili still enjoyed an approval rating of over 70%, Tihipko noted that Georgia's economy now ranked among the world's most investor friendly. Tihipko added that he was scheduled to meet with the Georgian ambassador later in the day and was contemplating a visit to Georgia.

RELATIONS WITH MOSCOW

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¶14. (C) Tihipko told the Ambassador that he planned to travel to Russia in the coming days. He could "feel the interest" of Moscow in his emergence as a leading politician. Tihipko stated twice that he expected to be received "at the highest level," noting that it was now easy for him to have such consultations. Moscow had been even more skeptical than Washington about his candidacy and had avoided engagement until after the first round presidential election. Because nobody had believed in him or helped his campaign (in Ukraine or abroad), Tihipko said he could operate more independently while holding talks with the Kremlin.

¶15. (C) Tihipko said Ukraine needed to improve relations with Russia, but he felt "Russia always wanted to dominate." Winning against Moscow meant being more competitive and attractive to outsiders and having a better democracy and a more open market economy. Tihipko was "afraid" both Yanukovych and Tymoshenko misunderstand this and ultimately would give into Russia. Such a conciliatory stance would hurt both Ukraine and Russia, Tihipko felt, since Moscow was prone to overplaying its hand. A Russian strategy of domination would provoke a reaction "throughout all parts" of Ukraine. If Russia did not follow a predictable, pragmatic policy in the shared interests of Ukraine, there would be a "second Maidan" -- a reference to Kyiv's Independence Square and the 2004 Orange Revolution.

EURO-ATLANTIC INTEGRATION

¶16. (C) Ukraine's "Europe-oriented vector" would remain in place, despite Russian attempts to constrain Kyiv, and further EU integration was "priority number one" for the new government, Tihipko said. NATO expansion needed to wait until relations between Washington and Moscow improved. In any case, Tihipko could not imagine NATO expansion under current Russian leadership, saying it would cause the Kremlin to unleash a fifth column to destabilize Ukraine. Tihipko would maintain cooperation with NATO to build Ukraine's military to NATO standards. Any government public relations campaign on NATO should focus less on membership accession and more on military reform.

RELATIONS WITH WASHINGTON

¶17. (C) Tihipko noted that he had enjoyed his recent consultations in the U.S. He commented specifically about his longstanding friendship with White House economic advisor David Lipton, whom Tihipko said still served as a mentor and sounding board. Tihipko mentioned that U.S. interlocutors (specifically "former Ambassadors") had underestimated his chances, but Moscow had underestimated him even more. He said he hoped to visit the U.S. again soon to continue his conversations.

BIOGRAPHICAL OBSERVATIONS

¶18. (C) Tihipko spoke in fluent, flawless Ukrainian with the Ambassador, a language he has increasingly used in media appearances during and since the presidential campaign. In prior meetings with embassy officials and in speeches at economic conferences, Tihipko had interacted solely in Russian.

¶19. (C) Leaning forward and communicating earnestly, Tihipko engaged the Ambassador throughout the conversation, responding succinctly to questions. His style of speech was direct and without any unnecessary flourishes, except at the outset when he went out of his way to praise the assistance of U.S. government officials during Ukraine's economic crises.

COMMENT

¶20. (C) Tihipko was in full command of his political strategy, as well as his priority reform items, revealing how his background as a banker and business leader would inform his approach to the post of Prime Minister. While he appeared to take satisfaction in his new found popularity, his attacks on both Tymoshenko and Yanukovych showed that any compromise with either could be fraught with tensions.

TEFFT